

**“CHINA’S PROLIFERATION AND THE IMPACT OF TRADE POLICY ON DEFENSE
INDUSTRIES IN THE UNITED STATES AND CHINA”**

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**TESTIMONY BEFORE THE U.S.-CHINA ECONOMIC AND SECURITY REVIEW
COMMISSION**

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Madame Chairwoman, Mr. Vice Chairman and distinguished members of the Commission, I thank you for the opportunity to discuss China’s proliferation practices and compliance with domestic Chinese nonproliferation laws and regulations and with international nonproliferation treaties, agreements and regimes. These issues are important to American interests and have significant implications for our security. I commend the Commission for its continued interest in this issue and particularly appreciate the opportunity to respond to the Commission’s request to comment on China’s policies on conventional weapons transfers and their impact on United States and global security.

Preventing the proliferation of weapons of mass destruction (WMD), their delivery systems, and related materials remains one of the foremost security concerns of the U.S. Government. These proliferation activities and sales of conventional weapons and technology to states that behave irresponsibly, particularly Iran, directly impact our security and the lives of our servicemen and women and those of our allies. In his 2004 State of the Union Address, President Bush stated that, “America is committed to keeping the world’s most dangerous weapons out of the hands of the most dangerous regimes.” Iran is such a regime. With this as a national priority, the United States has made working with China to improve its non-proliferation record an important part of both our non-proliferation policy and of our bilateral relationship.

China’s Non-Proliferation Policy and the U.S.-China Relationship

China’s leaders state that they have set their nation on the path of being a “responsible stakeholder” in the international system and that they want a “cooperative partnership” with the United States. These are laudable goals. China’s success or lack thereof in working with the United States and other nations to prevent the proliferation of WMD and missile technology and in preventing Iran and North Korea from behaving in irresponsible and dangerous ways is a key test of how well China’s government is meeting the goals its leaders have set.

The record is mixed. While China's record in preventing the proliferation of WMD and missile technology has shown some improvement in recent years, some Chinese entities and individuals continue to seek out opportunities and make sales that violate the PRC government's nonproliferation commitments. We continue to have little transparency into China's enforcement efforts and its dealings with Chinese firms. On sales of conventional weapons to Iran, a country that supports terrorism and that funds and supplies groups in Iraq, Lebanon and Afghanistan that target and kill Americans and our allies, China's efforts do not meet the standard we would expect from a "responsible stakeholder" or "constructive partner." China's sales of conventional military capabilities to Iran are also contrary to China's interests in the Middle East, a region that China itself depends on more and more for energy supplies.

On the positive side of the balance sheet, China has committed to respect multilateral arms export control lists, promulgated improved export control laws and regulations, and strengthened its oversight mechanisms. China has entered into an impressive array of international commitments, most recently becoming a member of the Nuclear Suppliers Group (NSG) in 2004. China has also worked alongside the United States to support international nuclear nonproliferation initiatives, including initiatives at the ASEAN Regional Forum. In its September 2005 white paper, *China's Endeavors for Arms Control, Disarmament and Non-proliferation*, China laid out an impressive set of rhetorical nonproliferation policies and procedures, designed to demonstrate its intent to become a more active participant in non-proliferation regimes. Late last year China adopted revised export control regulations harmonized with the Nuclear Suppliers Group.

However, despite many improvements, there remain serious gaps between China's official rhetoric and its achievements. China's export enforcement mechanisms do not have the reach and widespread buy-in necessary for effective compliance with the standards China has set for itself, nor for China to meet the standards the international community seeks from China. With China's dramatic economic expansion and the high goals set by its leaders, China needs to expand significantly the resources it spends on enforcement and increase dramatically transparency and cooperation on its investigations and actions. Specific deficiencies include the failure to enforce, hold violators accountable, and apply catch-all controls more rigorously. Without this needed transparency, we can not know the extent of PRC officials' knowledge of, or acquiescence in, these implementation gaps. We have repeatedly approached the PRC Government at all levels with our concerns about the activities of Chinese entities. We have provided specific instances and information about actual or potential transfers. China's mixed record of success in responding, particularly regarding entities and individuals that are serial proliferators, leads to questions about China's commitment to fully halt such proliferation activities.

More broadly, we continue to see in China a general willingness to allow transfers of a wide variety of dual use and conventional technologies to customers around the world –

including to states such as Iran, North Korea, Sudan, Burma, Zimbabwe, Cuba, and Venezuela. North Korea has used Chinese ports and airfields for transshipment of military-related items to Iran and other countries of concern. These transfers and continuing personal and institutional relationships between government and commercial entities of these states and China contradict and undermine China's credibility with regard to its stated non-proliferation policy goals.

The United States has recognized the danger of conventional arms and technology transfers to Iran both as a policy priority and through Congress' passage of the Iran, North Korea and Syria Nonproliferation Act (INKSNA) and similar, earlier legislation. Iran's actions today demonstrate the validity of these concerns. Iran disregards the UN and the international community as it pursues uranium enrichment and missiles capable of reaching, not just its regional neighbors, but also Russia and China. Of particular concern recently is the occurrence of attacks by Iranian-linked groups in Iraq and Afghanistan on United States and allied troops that have resulted in deaths and injuries. We have repeatedly asked China to stop its transfers to Iran of conventional weapons and technologies. China's response that these transfers are not governed by any international regime or treaty and therefore are "allowed," is irresponsible and is at odds with the statements by Chinese leaders that China is prepared to be responsible and seeks a cooperative partnership with the United States. Partners do not provide weapons to people who support those who kill our troops and those of our allies.

Those Chinese entities that we have sanctioned under the INKSNA (formerly INPA and INSA) should realize that the sanctions that bar them from engaging in normal business with the United States will continue and will more and more make them unable to participate in the global economy. Those Chinese firms should make the decision that their government has not made and stop selling conventional weapons and conventional weapons technologies to Iranian firms.

Chinese businesses, including state-owned enterprises, those that have close relations to PRC officials and those without government ties, continue to supply items and technology useful in weapons of mass destruction, their means of delivery, and advanced conventional weapons programs, often when these items are not explicitly on international lists. The PRC government and the firms themselves should follow the spirit of their commitments to prevent proliferation that China's leaders have made and in particular expand the use of "catch all" controls. These controls allow governments to stop a range of transfers that, while not on a particular list, substantially contribute to programs that advance WMD or missile programs. They are a perfect example of putting the spirit of a law first and are particularly appropriate in fields where technology changes and advances rapidly. There are cases where Chinese authorities have declared that they have taken direct action against firms and tightened export controls to close loopholes, but these measures are uneven, not transparent to other countries and, in many cases, do not result in changed behavior by the Chinese entities that proliferate.

As previously described to the Commission by a number of U.S. government officials, including Assistant Secretary of Defense Peter Rodman last September, our practice of imposing sanctions against Chinese entities and individuals is an important element of this Administration's efforts to curtail proliferation-related activity. Nine PRC entities are currently under sanctions pursuant to the Iran and Syria Nonproliferation Act. In December 2006, the United States imposed ISNA sanctions on three Chinese companies for activities that occurred in 2005: China National Electronic Import-Export Company, China Aero-Technology Import/Export Corporation (CATIC), and Zibo Chemet Equipment Company. In April 2007, the United States imposed further ISNA sanctions on three Chinese entities for activities that occurred before July of 2006. China National Precision Machinery Import/Export Corporation, Shanghai Non-Ferrous Metals Pudong Development Trade Company Ltd., and Zibo Chemet Equipment Company.

In July 2006, the United States designated four Chinese entities pursuant Executive Order 13382 on Blocking Property of Weapons of Mass Destruction Proliferators and Their Supporters, for repeated transfers or attempted transfers that aided Iran's missile programs. The Chinese government has complained about these sanctions. It is not apparent to us the extent to which the PRC government might be pressing these companies to change their behavior and cut their links to Iran.

China's success in ending proliferation by Chinese entities is essential to ensuring that weapons of mass destruction and related materials, missile technology and conventional weapons and military technologies do not end up in the hands of terrorists or rogue states. We have repeatedly engaged the PRC at the highest levels of government to reinforce the message that proliferation is a common threat to both the United States and China and to the international system which is the basis for both of our economic success. Despite some success, there remains great scope for improvement by the Chinese government, particularly in improved transparency and coordination and in stopping conventional transfers to Iran and WMD/missile-related shipments from North Korea.

United States policy encourages China to take its proper place in the international system but to do so it must take on its appropriate share of international responsibility. Peace and stability are vital to both our futures, we expect China to make the calculation that its strategic interests lie in enforcing international non-proliferation norms and even going beyond them when they are insufficient, such as with Iran.

We are prepared to work with China on strengthening its nonproliferation and export control systems. For example China is participating in the Export Control and Related Border Security Program, which works to encourage adherence to responsible policies on transfers of sensitive items and technologies and helps countries establish and enforce export controls consistent with international standards. We regularly discuss with China our concerns about proliferation through an array of dialogues, including Deputy

Secretary of State Negroponte's Senior Dialogue and in the range of military-to-military contacts we have with the Chinese People's Liberation Army.

The imposition or threat of sanctions is a tool to try and shift the cost-benefit analysis for proliferators. Sanctions can increase the costs to suppliers, restrict or close potential markets, and encourage foreign governments to take steps to adopt effective nonproliferation practices that stop transfers that aid WMD and missile programs or result in dangerous conventional transfers. To play the role in the world that China's leaders say they seek, PRC officials should be taking effective measures to sanction Chinese companies and individuals that proliferate. Too often, Chinese officials complain about sanctions on Chinese companies without taking all the necessary measures to get the companies and individuals to change their behavior. We look forward to ongoing constructive dialogue with China to improve efforts to combat proliferation.

The Impact of China's Proliferation Activities

The dangers posed by Iranian WMD and missile programs and supply of conventional weapons to support groups in Iraq, Afghanistan and Lebanon could not be higher. The President has been clear that we cannot tolerate a nuclear-armed Iran. This represents a threat not only to U.S. interests and to the greater Middle East, but to Europe and Asia – including China and Russia – and is not consistent with China's stated interest in Middle East stability.

For decades we have been concerned about China's assistance to sensitive Iranian weapons programs, including nuclear, chemical, missiles and conventional weapons and technologies. China pledged in October 1997 not to engage in any new nuclear cooperation with Iran and to complete work on two remaining nuclear projects – a small-scale research reactor and a zirconium production facility – in a relatively short period of time. We continue to monitor Chinese firms for any activity that might assist nuclear-related programs. We have sanctioned Chinese companies, including a company from the city of Zibo, for the export of chemical warfare-related equipment to Iran.

We are seriously concerned about and continue to protest (and sanction where appropriate) activities of PRC entities that help Iran move toward its goals of self-sufficiency in the production of ballistic missiles. Chinese officials often remonstrate that Chinese companies report that the transfers are for items that are not on international control lists or are for programs that are under MTCR thresholds. The effect of this narrow, legalistic approach by PRC officials is to allow Iranian firms to utilize technology under the cover of claims of "legitimate" cooperation. Our position is that any transfer of missile-related technology of any kind to Iran or any assistance to an Iranian missile producing entity is dangerous to regional and global stability and contrary to the goals Chinese leaders claim to set. For example, a Chinese firm continued to

supply dual-use items to an Iranian missile production organization through late-2005 and 2006 and prepared other raw materials for shipment to Iran. In addition, a key serial proliferator with a location in Beijing supported Iran's missile industry since at least 2004 by supplying materials and items which Iran deemed critical to its missile industry. Another Chinese firm shipped a consignment of aluminum alloy, suitable for missile airframe production, to Iran's ballistic missile program. A third-party broker coordinated the shipment to circumvent Chinese export controls and to avoid international scrutiny.

China has stated that it shares our assessment that Teheran must not obtain nuclear weapons capability. China suggested a willingness to confront the threat posed by Iran when it joined with the other permanent members of the UN Security Council and Germany in offering a generous package of incentives in June 2006 in exchange for Iran agreeing to suspend its proliferation-sensitive nuclear activities and entering into further negotiations. In response to Iran's failures to comply with its obligations, China joined the UN Security Council in adopting two unanimous UN Security Council resolutions – 1737 in December 2006 and 1747 in March 2007 of this year, to impose Chapter VII sanctions.

Unfortunately, China has joined Russia in a reluctance to back up this vote with action. We expect China to fully implement all its obligations under UNSCR 1747, particularly to exercise vigilance and restraint in the sale of, or transshipment through China of, heavy arms and missile technology to Iran. We also expect China to take other important steps, including suspending investments in Iran's oil and gas sectors – investments which, particularly at this sensitive time, send the wrong signal to the Iranian regime.

North Korea, with its July 5, 2006 missile launches and October 9, 2006 nuclear test, both of which Chinese leaders tried to stop, reinforced the danger its WMD and missile programs pose to the United States, to our allies, to China and Russia and to regional peace and security. China has made important contributions as host and coordinator of the Six-Party Talks aimed at achieving a denuclearized North Korea. Most recently, China was instrumental in helping get North Korea back to the Six-Party Talks and reaching agreement on the Initial Actions plan this February. We recognize and appreciate these important contributions. Nevertheless, China can and should do more.

Last year's North Korean missile launches and nuclear test demonstrate that China's past tolerance of North Korea's provocative behavior has eroded the very stability it claims to seek. Chinese firms are key sources of dual-use items for North Korea. Chinese entities, for example, are known to have provided dual-use missile-related items, raw materials, and other assistance to North Korea's ballistic missile programs. China remains the largest supplier of food and fuel to the North. Economic activity between China and North Korea is expanding. Chinese actions lessen the impact of international pressures on North Korea.

Beijing's response to the North Korean nuclear test suggests that it may be re-evaluating its relationship with North Korea. China's votes for UNSC Resolution 1659, condemning North Korea's missile launches, and UNSC Resolution 1718, tightening controls on the trade of military, dual-use and luxury goods to and from North Korea, are positive developments, though more should be done. China has stated that it is committed to implementing these resolutions, though it has not passed a luxury goods ban as required under resolution 1718, and further action and enforcement remains to be seen.

China is a major supplier of arms to Sudan, weapons that are important to a Sudanese military that supports actions in Darfur that are causing immense human suffering and threaten the stability of that region of Africa. China is seen as Khartoum's primary patron and benefactor. While China has declared its intent to restrict arms sales to uses outside of Darfur and appointed an envoy for Darfur, we are concerned that China is not using the full weight of its relationship with Sudan to stop the suffering in Darfur and bring Khartoum into compliance with international norms.

Opportunities to Improve Chinese Nonproliferation Compliance

As I have noted, the Chinese government has improved its non-proliferation efforts by promulgating export control laws and regulations, strengthening oversight mechanisms, expanding international cooperation and committing to respect multilateral arms export control lists. China's desire to appear a responsible global actor, combined with international pressures, has contributed to these improvements. However, there remains more for China to do to curtail proliferation, particularly with respect to transfers of conventional weapons and technology to Iran. We still observe transfer of a wide variety of technologies to customers around the world. The critical variable is the willingness of the Chinese government to put the requisite resources into carrying forward the policies its leaders have proclaimed and getting all levels of government and all Chinese businesses – state owned, partially state-owned or linked, and private – to understand the importance of preventing proliferation and to act accordingly. A key step in this process will be for China to be more open and transparent and engage in more effective cooperation with all its international partners, but most importantly, with the United States. Too often, we provide the PRC government with information, only to wait days, months or years to hear results, if ever. We will start moving toward true success when we have open and timely information sharing, joint investigations, and joint prosecutions of violators.

I see two primary prospects for the future of China's nonproliferation efforts:

The first and most likely based on past experience, is for China to continue being a reluctant participant in effectively preventing proliferation. PRC officials would continue to set lofty goals and take incremental steps to be part of the most advanced

nonproliferation regimes. But, this cooperation would be limited in nature, with more rhetoric than effective enforcement and much complaining about the difficulties and costs of a truly effective set of controls on proliferation. This route would see a continued limited, overly legalistic focus on form over substance in preventing proliferation, with Chinese firms playing the nationalist card whenever accused by the United States or others of irresponsible behavior and with the PRC enforcement agencies finding cooperation slow from internal counterparts in some cases and fully obstructionist in others. Questions will continue as to the extent of official involvement at the national, provincial or local level in proliferation activities. PRC interests in a stable Middle East will be eroded if Iran is able to expand its influence through the development of WMD and missile capabilities and the United States will increase pressure on China as more of our troops are killed by Iranian-supported groups.

The second, more appealing, optimistic scenario would be for Chinese leaders' words to become reality, to have China become a leader in world efforts to stop proliferation, not just regarding what is on lists, and not with a focus on "defending" Chinese firms, but with an approach that has China in a primary role in strengthening world peace and stability by preventing all transfers that threaten the international system on which China depends for the economic growth that its people so hunger for and which they deserve as human beings. China would gain credibility and influence throughout the world, but especially in the Middle East as it acted as a bulwark against an irresponsible Iran that might even change as a result of serious PRC pressure. The result would be a China that was seen as a constructive partner by many and which would be a fully responsible stakeholder.

The United States will continue to take proactive measures to encourage China's leaders to choose the more constructive path of a responsible global actor. We will continue our dialogues with the PRC on these issues, providing appropriate assistance and information, but ensuring we use all our available options to prevent proliferation, including, when appropriate, necessary sanctions and other actions to deter dangerous activities that threaten international peace and security.

Thank you.